

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 SS-20 NSC-10 CIEP-02 TRSE-00 EB-11

CIAE-00 INR-10 NSAE-00 RSC-01 PRS-01 COME-00 L-03

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC 7463

C O N F I D E N T I A L LIMA 7687 E.O. 11652: GDS

TAGS: BDIS, EMIN, EIND, PE

SUBJ: CERRO DE PASCO: RECENT DEVELOPMENTS

REF: LIMA 7521, LIMA 7519

1. SUMMARY: LLOSA HAS TOLD ECEMTL OFFICER THAT PERIOD FOLLOWING

OCTOBER 26 WILL ENTAIL GREATEST DIFFICULTY FOR CERRO IN ITS CURRENT CASH FLOW CRISIS. HOWEVER, HE FELT OUTLOOK GOOD FOR LOAN FROM BANCO POPULAR WHICH WOULD PROBABLY ENABLE CERRO TO CONTINUE OPERATIONS. WHILE GOP HAS BEEN REASONABLY COOPERATIVE, FURTHER FINANCIAL MANIPULATIONS BY CERRO NEW YORK HAS BEEN CAUSING HIM GREAT DIFFICULTY. WHILE HE HOPES THIS PROBLEM MAY NOW HAVE BEEN RESOLVED, HE APPEARS UNDERSTANDABLY RESENTFUL AS RESULT. LLOSA ALSO SAID GOP HAS APPOINTED A THREE MAN "LIAISON GROUP" WHICH HE THINKS WILL PROVIDE USEFUL COMMUNICATION CHANNEL WITH GOP.
END SUMMARY

2. LLOSA REVIEWED CERRO CASH SITUATION WITH EMBASSY OFFICER IN SOME DETAIL OCT 18. HE SAID HE HAD BEEN RECEIVING CONSIDERABLE COOPERATION AND UNDERSTANDING FROM GOP, ALTHOUGH HE COMPLAINED ABOUT ALZAMORO'S "UNFRIENDLY" ATTITUDE IN REFUSING TO UNFREEZE ACCOUNTS BLOCKED IN BANCO DEL CREDITO (WHICH NOW AMOUNT TO 256 MILLION SOLES). LLOSA NOTED THAT MINISTER OF LABOR HAD BEEN HELPFUL IN POSTPONING DATE OF WAGE SETTLEMENT, WHICH WOULD RELIEVE CERRO OF IMMEDIATE NECESSITY OF MAKING 80 MILLION SOLES PAYMENT (ALTHOUGH SETTLEMENT ITSELF HAD TURNED OUT TO BE MORE
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UNFAVORABLE THAN LLOSA HAD EARLIER BEEN LED TO BELIEVE.) LLOSA

SAID MOST CRITICAL TIME WOULD BE PERIOD IMMEDIATELY FOLLOWING OCTOBER 26, BUT WAS HOPEFUL CERRO WOULD SURVIVE WITH HELP OF LOAN FROM BANCO POPULAR, ABOUT WHICH HE CONTINUES TO APPEAR OPTIMISTIC.

3. LLOSA SIAD HIS GREATEST DIFFICULTY HAD BEEN CAUSED BY ACTION OF CERRO NEW YORK WHICH EARLY IN WEEK HAD TAKEN STEPS TO CASH LETTER OF CREDIT ON WHICH LLOSA HAD BEEN COUNTING. THIS WOULD NOT ONLY HAVE WORSENER CERRO CASH POSITION BY MORE THAN 100 MILLION SOLES BUT, SINCE CERRO NEW YORK HAD NO RIGHT TO MONEY, WOULD HAVE SERIOUSLY UNDERMINED LLOSA'S CREDIBILITY WITH GOP HAD MATTER COME TO THEIR ATTENTION. LLOSA SAID HE HAD THREATENED TO RESIGN AND THAT MURPHY HAD EVENTUALLY RELENTED AND HAD RETURNED MOST OF FUNDS. WHILE MURPHY WAS STILL INSISTING ON RETAINING SOME \$400,000, LLOSA APPEARED CONFIDENT MURPHY WOULD EVENTUALLY AGREE TO RELEASE THIS AMOUNT AS WELL. LLOSA ASKED EMBASSY OFFICER THAT HIS REMARKS CONCERNING THIS INTRA-COMPANY DISPUTE NOT BE REPEATED TO CERRO NEW YORK.

4. LLOSA ALSO SAID THAT ON OCTOBER 17 THE GOP HAD APPOINTED A THREE-MAN "LIAISON GROUP" TO WORK WITH CERRO DE PASCO. HE HAD EARLIER IN THE WEEK FEARED THAT GOP CONCERN OVER CERRO CASH POSITION MIGHT LEAD THEM TO APPOINT "INTERVENTOR". HE THOUGHT LIAISON GROUP WOULD BE HELPFUL IN IMPROVING COMMUNICATION WITH GOP AND HE WAS PREPARED TO GIVE GROUP WHATEVER INFORMATION IT MIGHT NEED TO HELP CERRO OVER PRESENT DIFFICULT PERIOD. GROUP WILL NOT HAVE OFFICE SPACE IN CERRO BUILDING AND WILL HAVE NO VOICE IN MANAGEMENT AND ARE THUS, IN LLOSA'S VIEW, NOT INTER-VENTORS BUT INFORMATION GATHERERS.

5. LLOSA SAID THAT CERRO NEW YORK AND GOP WERE STILL CONSIDERING SOME FORM OF SWAP WHICH WOULD SET OFF PROFITS, AMORTIZATION AND DEPRECIATION (ABOUT \$20 MILLION) FOR WHICH CERRO HAS REQUESTED CONVERTIBILITY AGAINST AMOUNTS BEING WITHHELD BY CERRO NEW YORK (WHICH LLOSA BELIEVES STILL AMOUNT TO ABOUT \$27 MILLION). THIS WOULD SERVE TO FREE CERRO ACCOUNT IN BANCO DEL CREDITO.

6. LLOSA NOTED THAT CERRO HAS SOME \$40 MILLION IN METALS AND ORES SITTING IN CALLAO WHICH MINEROPERU HAS NOT YET SOLD. HE ASCRIBED INACTION TO MINEROPERU INEXPERIENCE AND TO INSISTENCE
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ON 100 PERCENT PAYMENT IN IRREVOCABLE LETTERS OF CREDIT. BUYERS WERE RELUCTANT TO PUT UP 100 PERCENT IN VIEW OF CURRENT HIGH WORLD PRICE, WHICH THEY VIEW AS IMPERMANENT. IF SALES WERE MADE, CERRO'S PROBLEMS WOULD, OF COURSE, BE SOLVED.

7. LLOSA SIAD THAT MOST SENIOR CERRO PERSONNEL WHO NOW OUT OF COUNTRY PLAN RETURN SOON. ALLEN EXPECTED THIS WEEKEND. KURLA AND GARDENER EXPECTED NEXT WEEK. DOWD HAS ALREADY RETURNED BUT LLOSA

SAID HE HAS TENDERED HIS RESIGNATION, EFFECTIVE IN 40 DAYS. ONE
MOTIVE FOR DOWD RESIGNATION, ACCORDING LLOSA, WAS IMPATIENCE WITH
CERRO NEW YORK MACHINATIONS.

8. COMMENT: WHILE LLOSA APPEARS TO BELIEVE HIMSELF OBLIGATED TO
SEE CERRO DE PASCO THROUGH ITS CURRENT CRISIS, HE EQUALLY APPEARS
FED UP BY MURPHY'S ACTIONS. LLOSA INSISTS HE WOULD IN FACT HAVE
RESIGNED IF MURPHY HAD RETAINED AMOUNTS DUE UNDER LETTER OF
CREDIT, AND IN OUR VIEW A REAL POSSIBILITY EXISTS HE MAY YET DO
SO IF FURTHER PROVOKED. ALSO, QUITE ASIDE FROM OBVIOUS IMPACT OF
SUCH PROVOCATIONS ON GOP IN CONTEXT OF CURRENT NEGOTIATIONS, FACT
CANNOT BE OVERLOOKED THAT SUCH MANEUVERS BY CERRO NEW YORK PLACE
LLOSA IN INCREASING LEGAL JEOPARDY.
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